

PERUVIAN
OILS & MINERALS
L I M I T E D

1970
A N N U A L
R E P O R T



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PERUVIAN OILS & MINERALS, LIMITED

OFFICERS

J. J. RANKIN, President and Managing Director - Toronto, Ontario
R. L. SEGSWORTH, Vice-President - - - - Toronto, Ontario
J. S. GRANT, Q.C., Secretary - - - - Toronto, Ontario
W. STEUERMAN, C.A., Treasurer - - - - Toronto, Ontario

DIRECTORS

STANLEY BALL - - - - Toronto, Ontario
A. LYNDON BELL - - - - University City, Missouri
JOHN S. GRANT - - - - Toronto, Ontario
ALFRED E. MacKAY - - - - Toronto, Ontario
JOSEPH J. RANKIN - - - - Toronto, Ontario
ROBERT L. SEGSWORTH - - - - Toronto, Ontario
CHARLES G. WRAY - - - - Scottsdale, Arizona

HEAD OFFICE

Suite 904 - 85 Richmond Street West, Toronto, Ontario

PERUVIAN OFFICE

Edificio Republica, Lima, Peru

AUDITORS

Clarkson, Gordon & Co. - - - - Toronto, Ontario

BANKERS

Canadian Imperial Bank of Commerce - - - Toronto, Ontario
The Royal Bank of Canada - - - - Toronto, Ontario
Chase Manhattan Bank - - - - New York, N.Y.

TRANSFER AGENTS AND REGISTRARS

The Sterling Trusts Corporation, Toronto, Ontario
The Canadian Bank of Commerce Trust Company, New York, N.Y.

PERUVIAN OILS & MINERALS, LIMITED

Directors' Report

TO THE SHAREHOLDERS:

Submitted herewith is the report of the Corporation's activities for the past year together with financial statements for the year ending December 31st, 1970.

The year 1970 witnessed a further deterioration of the business climate in Peru. Accordingly, the directors have decided to make provision for the write-off of substantially all of the development expenses related to our concessions.

The Corporation was not successful in obtaining partners to drill the North Sea Whiterock prospect and these permits were forfeited to the Crown.

During the month of October, 1970, the Corporation entered into an agreement whereby it obtained the major interest in three Petroleum and Natural Gas Crown leases in the Opal area of Central Alberta from Nortun Explorations Limited. We undertook to drill two wells to the Viking formation to test a theory presented by Mr. Norman Tunna, P.Eng., consulting geologist and President of Nortun Explorations Limited.

The funds for the Nortun project were arranged for, and partly provided by, two of the directors. Two wells, approximately nine miles apart, were drilled on the leases purchased from Nortun Explorations. Both of the wells are potential producers and have confirmed the presence of a gas field at this location. Drilling and testing was discontinued immediately and approximately eighteen thousand additional acres surrounding the two wells have been accumulated to date. Further acquisitions are expected to be made shortly.

To assist in financing the further exploration and development of the Opal field, your directors have arranged the sale of the Corporation's oil production in the Pembina field in Alberta for \$375,000. The sale agreement made with Denison Mines Limited requires approval of the shareholders at the forthcoming meeting.

Subject to completion of the sale to Denison Mines, the Corporation plans to commence drilling and testing additional wells on the Opal acreage immediately after June 1, 1971. A map showing our holdings and the location of the two discovery wells with respect to the Redwater Oil field and the prolific Bon Accord and Barhead gas fields is included in this report.

On completion of the drilling and testing of additional wells, your directors intend to present to the shareholders a report on the Opal project by an independent engineering firm showing the reserves and feasibility of the project. A preliminary estimate indicates that the total cost of land acquisitions, well completions and gathering system for the project would be approximately \$600,000.

Consideration is now being given to a possible rights offering to the shareholders to be made in conjunction with the presentation of the above report. At such time, we will recommend a change of the name of the Corporation to reflect the concentration of its mineral and oil exploration and development activities in North America. It is expected that this special shareholders' meeting can be called before the beginning of October, 1971.

General and administrative expenses showed a modest increase for the year. The main increases occurred under legal and audit fees, interest and bank charges and foreign exchange loss. Most of the increase in legal and audit fees was due to an under accrual of these items in a previous year; increase in foreign exchange loss was due to increase in value of Canadian currency in terms of U.S. currency.

Your directors are optimistic concerning the completion of a viable project in the Opal area, but further drilling and testing will be required before this can be proven.

The successful conclusion of this venture would initiate an active oil and mineral exploration and development programme.

On behalf of the Board,

J. J. RANKIN,
President.

April 30, 1971.

PERUVIAN OILS & MINERALS, LIMITED

(Incorporated under the laws of Ontario)

Balance Sheet as at (with comparative figures)

ASSETS

Current:	1970	1969
Cash and funds on deposit	\$ 43,575	\$ 59,826
Accounts receivable and accrued interest	87,372	54,697
Prepaid expenses	2,982	2,638
Total current assets	133,929	117,161
Property and equipment—at cost less accumulated depreciation and depletion (schedule 1)	494,594	532,658
Deferred exploratory and development costs	255,750	1,095,208
Other assets:		
Deposits	8,018	6,065
Application for mining claims — Peru	1,274	1,274
Investments in other mining and oil exploration companies—at cost (note 2)	42,604	41,483
Investment in subsidiary company—at cost (note 2)		69,355
Total other assets	51,896	118,177
	<u>\$ 936,169</u>	<u>\$1,863,204</u>

Auditors' Report

To the Shareholders of
Peruvian Oils & Minerals, Limited:

We have examined the balance sheet of Peruvian Oils & Minerals, Limited as at December 31, 1970 and the statements of operations and deficit, deferred exploratory and development costs and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PERUVIAN OILS & MINERALS, LIMITED

(Incorporated under the laws of Ontario)

December 31, 1970

(at December 31, 1969)

LIABILITIES

Current:	1970	1969
Bank loan	\$ 15,000	
Other loans (note 3)	120,000	
Accounts payable and accrued liabilities	109,548	\$ 77,124
Total current liabilities	244,548	77,124
Shareholders' equity:		
Capital (note 3) —		
Authorized:		
5,000,000 shares par value \$1.00 each		
Issued:		
2,931,671 shares including 470,000 shares issued for property	2,931,671	2,931,671
Less net discount	294,087	294,087
	2,637,584	2,637,584
Deficit	1,945,963	851,504
	691,621	1,786,080
On behalf of the Board:		
J. J. RANKIN, Director.		
R. L. SEGSWORTH, Director.		
	\$ 936,169	\$1,863,204

(See accompanying notes)

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1970 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
March 21, 1971.

CLARKSON, GORDON & CO.,
Chartered Accountants.

PERUVIAN OILS & MINERALS, LIMITED

Statement of Operations and Deficit

For the Year Ended December 31, 1970

(with comparative figures for the year 1969)

	1970	1969
Income:		
Income from oil and gas production (schedule 2)	\$ 5,016	\$ 808
Interest income and sundry credits	545	2,359
Total income	5,561	3,167
General and administrative expenses:		
Remuneration of directors	300	1,000
Accounting, office services and rent	21,000	21,000
Interest and bank charges	2,874	101
Legal and audit	7,194	2,983
Transfer agency	8,271	8,506
Publicity	2,370	2,661
Travel	1,937	3,252
Reports to shareholders and meetings	6,260	6,727
Foreign exchange loss	6,803	2,998
Other	2,540	3,736
Total general and administrative expenses	59,549	52,964
Operating loss for year	53,988	49,797
Other charges:		
Exploratory and development costs written off —		
Concessions in process of surrender — Peru	\$ 127,137	
Exploratory and development — Peru	137,695	
Development — Ohio	20,512	
— Joint venture and other	36,581	321,925
Equipment written off — Ohio	4,189	
Provision for write-off of certain oil concessions and related exploratory and development expenses in Peru (note 4)	644,849	
Investment in subsidiary written off (note 2)	69,508	
	1,040,471	24,368
Net loss for year (per share: 1970 — \$0.37; 1969 — \$.025)	1,094,459	74,165
Deficit, beginning of year	851,504	777,339
Deficit, end of year	\$1,945,963	\$ 851,504

(See accompanying notes)

PERUVIAN OILS & MINERALS, LIMITED

Statement of Deferred Exploratory and Development Costs

For the Year Ended December 31, 1970
(with comparative figures for the year 1969)

	Balance December 31, 1969	Additions in 1970	Written off in 1970	Balance December 31, 1970
Exploratory and development expenses in Peru:				
Preliminary exploration	\$ 571,196		\$ 56,113	\$ 515,083
Surface taxes and dues for Government				
Petroleum department services	457,847	\$ 9,560		467,407
Legal and accounting fees	91,893	1,314	4,697	88,510
Seismograph, geological, survey and topographical expenses	116,950			116,950
Drilling expenses	52,111		52,111	
Boundary survey	20,737			20,737
Foreign exchange and adjustments	(34,376)	(3,127)	(2,432)	(35,071)
Interest earned and sundry credits	(25,709)	(433)	(1,519)	(24,623)
Other development expenses	460,174	3,980	28,725	435,429
Receipt of option payments	(323,750)			(323,750)
	<u>1,387,073</u>	<u>11,294</u>	<u>137,695</u>	<u>1,260,672</u>
Less:				
Concessions annulled, surrendered, or in process of surrender	480,732		127,137	607,869
Provision for write-off of costs relating to other concessions (note 4)			574,849	574,849
	<u>480,732</u>		<u>701,986</u>	<u>1,182,718</u>
	<u>906,341</u>	<u>11,294</u>	<u>839,681</u>	<u>77,954</u>
Exploratory and development expenses in Ohio:				
Total development expenses	72,680		29,860	42,820
Less accumulated amortization	23,805	4,735	9,348	19,192
	<u>48,875</u>	<u>(4,735)</u>	<u>20,512</u>	<u>23,628</u>
Exploratory and development expenses in Alberta:				
Total development expenses	87,390	48,017		135,407
Less accumulated amortization	32,975	4,677		37,652
	<u>54,415</u>	<u>43,340</u>		<u>97,755</u>
Joint venture and other explorations:				
In Peru	85,577	178	29,342	56,413
Other countries		7,239	7,239	
	<u>85,577</u>	<u>7,417</u>	<u>36,581</u>	<u>56,413</u>
	<u>\$1,095,208</u>	<u>\$ 57,316</u>	<u>\$ 896,774</u>	<u>\$ 255,750</u>

Note: Consulting fees of \$6,840 paid to directors are included in costs for the year.
(See accompanying notes)

PERUVIAN OILS & MINERALS, LIMITED

Statement of Source and Application of Funds

For the Year Ended December 31, 1970

(with comparative figures for the year 1969)

	1970	1969
Source of funds:		
Interest income and sundry credits	\$ 545	\$ 2,359
Income from oil and gas production	5,016	
Add charges against income not involving an outlay of funds —		
Depreciation, depletion and amortization	51,814	47,073
Option payment on concessions in Peru		107,500
Reduction in advance to Whiterock Explorations (Italia) S.p.A.		8,600
	<u>57,375</u>	<u>165,532</u>
Application of funds:		
General and administrative expenses	59,549	52,964
Exploratory and development costs	68,580	63,421
Purchase of oil leases	59,708	
Purchase of equipment — Ohio	36	2,021
— Alberta	16,931	70,143
Advances to subsidiary company	153	6,852
Purchase of shares in Antipodes Explorations Limited		2,894
Purchase of debentures in Antipodes Explorations Limited	1,121	
Application for mining claims — Peru		75
Increase in drilling deposits	1,953	
	<u>208,031</u>	<u>198,370</u>
Decrease in working capital during the year	150,656	32,838
Working capital, beginning of year	40,037	72,875
Working capital (deficiency), end of year	<u>\$ (110,619)</u>	<u>\$ 40,037</u>

(See accompanying notes)

PERUVIAN OILS & MINERALS, LIMITED

Notes to the Financial Statements

December 31, 1970

- The financial statements are expressed in terms of Canadian currency. Assets and liabilities and revenues and expenses in currencies other than Canadian dollars are translated into Canadian funds on the following bases:

Current assets and current liabilities	At the closing rate of exchange prevailing at December 31.
Certain expenditures for oil concessions in Peru	At the exchange rates prevailing on the dates of payment to the Peruvian government.
Expenditures on equipment and deferred exploration and development	At the average rates of exchange for the years in which expenditures were made.
Revenues and expenses	At the average rates of exchange for the year, except that provisions for depreciation, depletion and amortization and exploratory and development costs, equipment, and concession costs written-off are at the rates prevailing when the relative expenditures were made.

- The investment in subsidiary company, Whiterock Oil and Gas Limited (60% owned) has been written-off as the only asset of that company, a petroleum production licence on two blocks in the British section of the North Sea, expired during 1970.

The investment in other mining and oil exploration companies is comprised of:

Antipodes Explorations Limited —		
278,319 shares	39,325	
5% convertible debentures due September 1, 1975	<u>1,121</u>	\$ 40,446
Antaeus Resources Corporation (exchanged for Silver Resources Corporation) — 589 shares		<u>2,158</u>
		<u>\$ 42,604</u>

No reliable market quotations are available for the above shares.

- During 1970, the company entered into an agreement with Nortun Explorations Ltd. to acquire an interest in certain properties in Alberta. The costs of acquiring this interest together with additional costs relating thereto, including the cost of drilling two wells, amounted to \$107,726.

To raise funds for this venture the company entered into an agreement with three parties for loans aggregating \$120,000, bearing interest at 9% per annum and maturing on March 1, 1971. As security

for these loans, the company pledged its interest in its Alberta oil producing properties (exclusive of the Nortun properties). Under the terms of the loan agreement the lenders were entitled to apply the proceeds of repayment, immediately after any repayment, against the cost of subscription for shares of the company to be issued at the closing bid price on the Toronto Stock Exchange on the day prior to such subscription less a discount to be negotiated. The agreement further provided that, should the company make a rights offering to its shareholders prior to repayment of the loans affording them subscription rights on additional shares, the lenders would be entitled to acquire shares in the company at the same subscription price.

Of the \$120,000 payable at December 31, 1970, \$40,000 was payable to lenders which were companies owned or controlled, directly or indirectly, by directors of Peruvian Oils & Minerals, Limited.

On March 1, 1971, the company repaid out of bank borrowings one of the lenders in full for \$80,000. This lender did not exercise his right to subscribe for common shares in the company. The remaining lenders agreed to extend the term of their loans (aggregating \$40,000) to June 1, 1971, on the same terms and conditions and to grant to the bank a prior charge on the above mentioned Alberta oil producing properties.

4. Late in 1970 an option agreement covering certain of the concessions held by the company in Peru was terminated. Because of uncertainty that the company will be able in 1971 to arrange a similar or other satisfactory continuation of its interest in these concessions, a decision has been made by the company subsequent to the year end to provide in the accounts for the write-off of the costs of these concessions, and of the related deferred exploratory and development costs. This provision has been reflected in the accompanying financial statements.
5. Taxable losses carried forward of \$27,600 and unclaimed Canadian development expenses of \$201,200 are available to reduce the amount of income which may be subject to tax in future years. The taxable losses carried forward expire in varying amounts between 1972 and 1975.

PERUVIAN OILS & MINERALS, LIMITED

SCHEDULE 1

Schedule of Property and Equipment

December 31, 1970

(with comparative figures at December 31, 1969)

	1970	1969
South American (Peru):		
Oil concessions —		
Deposits (net of refunds and recoveries)	\$ 51,680	
Shares issued at par for commissions and services relating to investigations and negotiations for oil concessions	70,000	
	121,680	
Less provision for write-off (note 4)	70,000	\$ 51,680
Office furniture and fixtures — at cost	3,992	
Less accumulated depreciation	3,991	1
Total property in South America	51,681	119,830
Western Canada (Alberta):		
Oil leases — at cost		
Cash	124,177	
Shares issued at a premium of 25¢ each	500,000	
	624,177	
Less accumulated depletion	361,908	262,269
Machinery and equipment — at cost	228,180	
Less accumulated depreciation	92,649	135,531
Total property in Canada	397,800	354,447
United States (Ohio):		
Oil leases — at cost	66,509	
Less accumulated depletion	32,681	33,828
Machinery and equipment — at cost	23,121	
Less accumulated depreciation	11,836	11,285
Total property in the United States	45,113	58,381
Total property and equipment	\$ 494,594	\$ 532,658

PERUVIAN OILS & MINERALS, LIMITED

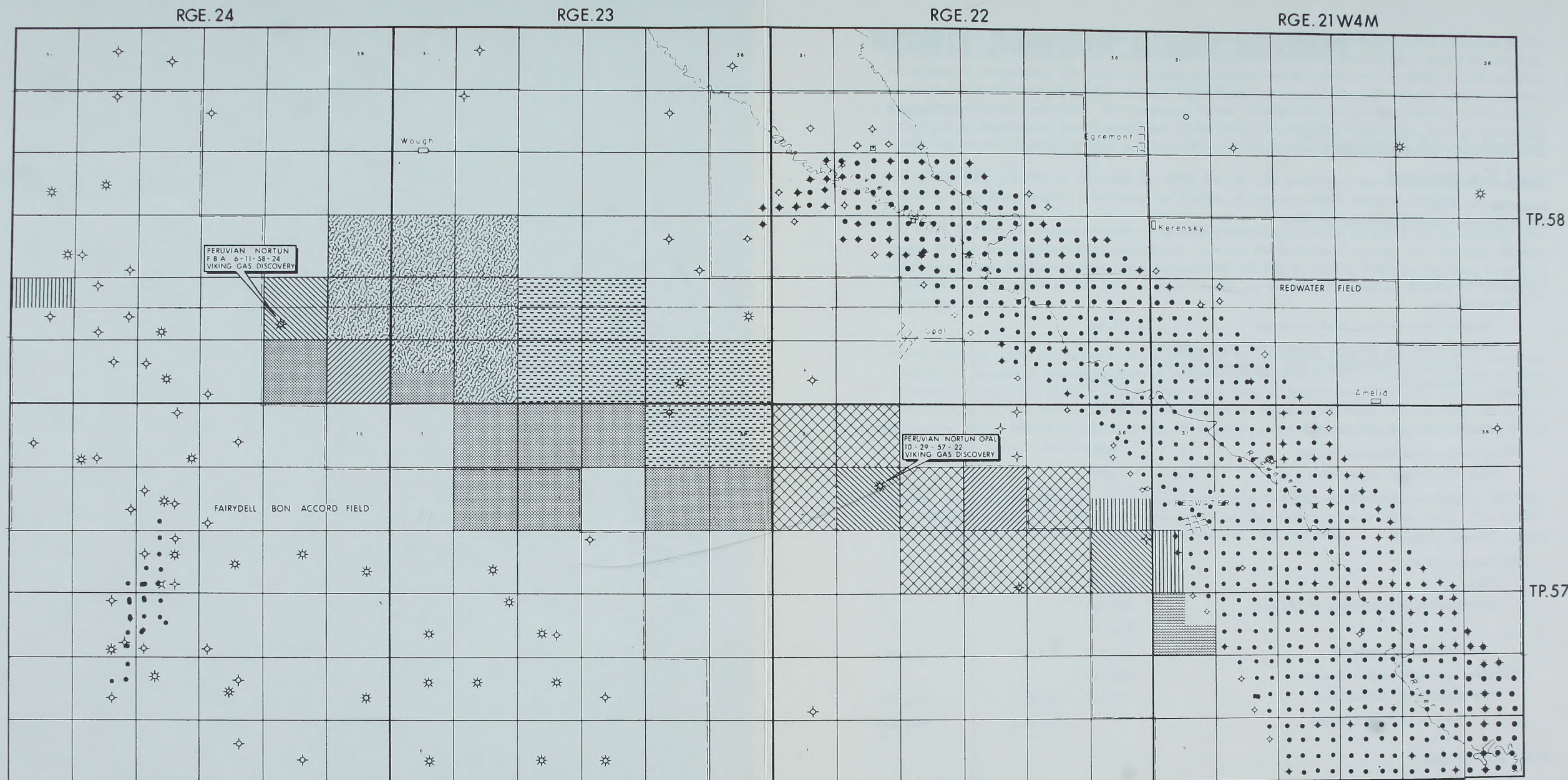
SCHEDULE 2

Schedule of Income from Oil and Gas Production

For the Year Ended December 31, 1970

(with comparative figures for the year 1969)

	1970	1969
Sale of crude oil and natural gas	\$ 104,962	\$ 91,037
Production expenses:		
Operating expenses	36,612	34,571
Lease rental expenses	1,318	1,398
Field facility and gas collection expenses	4,941	3,785
Insurance and taxes	5,261	4,210
Depletion of oil leases	26,553	22,049
Amortization of development costs	9,411	11,166
Depreciation of machinery and equipment	15,850	13,050
Total production expenses	99,946	90,229
Income from oil and gas production	\$ 5,016	\$ 808



ACREAGE TYPE	ACQUIRED BY	NET ACRES	ROYALTY & O'RIDE
	FARMOUT	1,920	CR* & NORTUN*
	PURCHASE	480	CR. & NORTUN
	PURCHASE	5,440	CR. & NORTUN
	PURCHASE	5,120	CR. & NORTUN
	PURCHASE	4,800	CR. & NORTUN & 3%
	PURCHASE	960	17.5 & NORTUN
	UNDER NEGOTIATION	18,720	

* CROWN ROYALTY (GAS) = 16 $\frac{2}{3}$ %
 ☆ NORTUN = 5% O'RIDE TO PAYOUT, THEN
 CONVERTS TO 25% W. I.

 FREEHOLD LEASES UNDER NEGOTIATION

PERUVIAN OILS & MINERALS, LIMITED

OPAL AREA

MAP SHOWING CURRENT
LAND HOLDINGS OF P.O.M.



PREPARED BY NORTUN EXPLORATIONS LTD.

MARCH 1971

